ANNUAL PERFORMANCE PLAN

2002

Appendix C to Strategic Plan

OIG

Office of Inspector General

ANNUAL PERFORMANCE PLAN 2002

Foreword

This performance plan, presented as appendix C to our *Strategic Plan 2000 – 2004*, details the activities we plan to conduct during 2002. We have tied our anticipated work to the three strategic goals, and their related objectives, outlined in our strategic plan. Unforeseen events, such as failed banks and legislated requirements, may cause us to alter this plan.

The results of our activities for the calendar year will be reported to the Chairman, other members of the Board (directly or through the Board's committees), and senior Board officials. The results will also be summarized in our semiannual reports to Congress as required by the Inspector General Act.

Barry R. Snyder
Inspector General

Introduction

In 2000, the Office of Inspector General (OIG) of the Board of Governors of the Federal Reserve System (Board) published its *Strategic Plan 2000-2004*. The strategic plan represents the long-range direction for the OIG and forecasts the future nature and focus of our work over the five-year period. The plan emphasizes our mission, vision, values, and major goals and objectives. We also published our annual performance plans for 2000 and 2001 as appendixes to our strategic plan. This *Annual Performance Plan 2002* is appendix C to our strategic plan and details the work we plan to perform in 2002.

In developing this year's annual performance plan, we reevaluated the internal and external environmental factors that are impacting the Board and the OIG community at large. Significant factors impacting our work this year include:

- helping to ensure the integrity, security, and continuity of Federal Reserve operations in light of the terrorist attacks of September 11 and subsequent anthrax contamination of mail;

- focusing our program evaluations on the effectiveness of the Board's supervisory activities recognizing that the recent economic downturn may result in more failed banks;

- assessing the performance, internal controls, and compliance risks of the significant changes the Board is making in managing internal operations;

- evaluating the Board's participation in a number of the President's management initiatives, and providing support for initiatives effecting the Inspector General community; and

- continuing to enhance OIG human capital and operating efficiency.

The OIG performs its duties and responsibilities under three major service areas (as shown in the organizational chart that follows). Combined, these service areas perform traditional audits and investigations as well as some nontraditional consulting and partnering activities with Board management and staff.

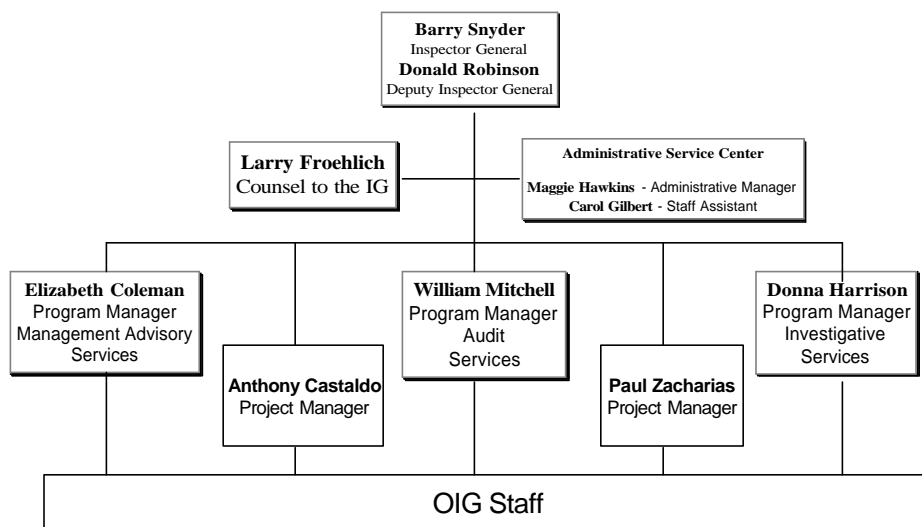The three service areas as reflected in our organizational chart are:

- Investigative Services – This service area performs criminal and administrative investigations of alleged fraud, waste, abuse, mismanagement, and employee misconduct. This area also maintains our nationwide Hotline operations.

- Audit Services – This service area encompasses both financial-related and performance audits. Financial-related audits are audits of the Board's financial statements, other financial information, budget data, and financial performance reports. This service area also evaluates the internal controls and security procedures governing the Board's

contracting and procurement activities, financial and management information systems, and the Board's facilities, assets, and sensitive information. Performance audits include program results and economy and efficiency audits of programs and operations within the Board's three major mission areas - monetary policy, banking supervision and regulation, and oversight of payment systems and financial services.

- <u>Management Advisory Services</u> – This service area performs reviews of proposed and enacted laws and regulations, and reviews of proposed changes to the Board's policies and procedures. This service area also provides consulting and assistance to managers to help analyze the inherent and operational risks in their work environments; conducts business process reviews of selected operations; participates in major Board projects and system development efforts; provides early warning of potential problems; and provides other technical assistance and training.

Office of Inspector General

January 2002

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Our planned projects for 2002 are in the strategic goals and objectives sections that follow.

Goal 1: Provide Value-Added Customer Service to the Board

Objective 1:   Improve and Enhance the Board's Program Operations

Interagency Review of the Federal Financial Institutions Examination Council

Project Overview: In 1998, representatives from the Office of Inspectors General (OIG) of the Board of Governors of the Federal Reserve System (Board), Department of the Treasury, the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Association performed an audit scoping review of the operations of the Federal Financial Institutions Examination Council (FFIEC). The review identified several areas for potential audit follow-up. The following year, representatives from these same offices conducted a joint review of the FFIEC's training program. Late last year, the OIGs began a joint review focusing on the FFIEC's overall mission. Specifically, this review is designed to determine whether the FFIEC is meeting its mission of prescribing uniform principles and standards for the examination of financial institutions. The review will also assess the FFIEC's role as a result of the Gramm-Leach-Bliley Act to determine whether the FFIEC should be expanded to include representatives from the Securities and Exchange Commission and insurance industry regulators.

Projected Start Time: Carryover from 2001
Projected Completion: March 2002

Material Loss Review Methodology Update

Project Overview: The Federal Deposit Insurance Corporation Improvement Act (FDICIA), enacted into law in December 1991, amended the Federal Deposit Insurance Act by adding a new section entitled "Prompt Corrective Action." Subsection 38(k) provides that if the deposit insurance fund incurs a material loss with respect to an insured depository institution on or after July 1, 1993, the Inspector General of the appropriate federal banking agency shall prepare a report to the banking agency which shall: 1) review the agency's supervision of the institution, including the agency's implementation of FDICIA section 131, Prompt Corrective Action; 2) ascertain why the institution's problems resulted in a material loss to the insurance fund; and 3) make recommendations for preventing any such loss in the future. The act requires the submission of a report six months from the time the material loss was incurred. Under FDICIA, a loss is considered material if it exceeds the greater of $25 million or 2 percent of the institution's total assets at the time the FDIC initiated assistance under Section 13 or was appointed receiver. Because no state member banks have failed since the mid 1990's, the Board's OIG has no recent experience conducting a FDICIA-mandated material loss review (MLR). The economic slowdown increases the overall risk for bank failures and, to ensure readiness in the event a state member bank fails, the OIG staff is in the process of upgrading its MLR methodology and training. As part of this effort, we will:

- update the universe of laws, regulations, and congressional mandates related to the OIG's MLR responsibilities;

- review prior OIG MLR reports and workpapers to identify lessons learned;

- develop and update staff expertise in banking supervision policies, processes, and practices;

- establish access to appropriate surveillance data in the Division of Banking Supervision and Regulation (BS&R), and

- update the MLR Memorandum of Understanding with other financial institution regulatory Offices of Inspector General.

Projected Start Time: Carryover from 2001
Projected Completion: April 2002

Hamilton Bancorp Material Loss-Related Review

Project Overview: Through an agreement with other financial institutions regulatory agency Inspectors General charged with the legislative requirement to conduct material loss reviews, we address any relationship of Board-regulated holding companies to material losses to the fund resulting from failed financial institutions supervised by any of these agencies. Miami-based Hamilton Bank was closed on January 11, 2002, by its regulator, the Office of Controller of the Currency. This failure will likely result in bank insurance fund losses that meet the material loss review criteria. We will evaluate the Federal Reserve's oversight of the bank's holding company, Hamilton Bancorp, and attempt to identify any systemic supervisory issues.

Projected Start Time: January 2002
Projected Completion: April 2002

Oakwood Material Loss Review

Project Overview: On February 2, 2002, the FDIC closed the Oakwood Deposit Bank, a state member bank supervised by the Federal Reserve, and, subsequently, sold the institution's deposits and loan portfolio at a premium after it was determined that a large portion of the bank's assets had been fraudulently diverted from the bank. Preliminary estimates by the FDIC resolutions and liquidation staff peg the loss to the bank insurance fund at $40 to $50 million, which exceeds the $25 million threshold established under Section 38 of FDICIA, for a material loss. As discussed above, FDICIA requires us to review failed financial institutions supervised by the Federal Reserve that result in a material loss to the bank insurance fund and produce, within six months of the loss, a report that includes suggestions for improving the Federal Reserve's banking supervision

practices. The objective of this project is to fulfill our legislative mandate by reviewing the causes of the failure and, if applicable, recommending steps to improve supervisory policies and procedures so this type of fraud can be prevented or identified earlier.

Projected Start Time: March 2002
Projected Completion: September 2002

Audit of the Federal Reserve System's Surveillance Function

Project Overview: The Federal Reserve System's (System) surveillance function tracks the condition and performance of individual banking institutions, assesses macro trends in the banking industry and the economy, and provides statistical and analytical support to the examination staff. Surveillance activities are performed at the Board as well as at each Reserve Bank. The importance of the surveillance function has increased now that the System has implemented a risk-focused approach to examination, which requires more intensive preexamination planning and scoping to ensure that examiners focus their efforts on areas that pose the greatest risks to an institution's safety and soundness. The objective of this audit is to evaluate the economy and efficiency of the System's surveillance program. Our work will entail a Systemwide look at the surveillance efforts; the coordination between the Board, the Reserve Banks, and other regulators; and the overall efficiency of the System's surveillance activities.

Projected Start Time: May 2002
Projected Completion: October 2002

Follow-up of the Board's Oversight Approach for the Federal Reserve's Check Modernization Project

Project Overview: In October 1999, the Board approved a check modernization project for the Reserve Banks to completely reengineer their check-processing infrastructure to create a nationwide system for processing checks, researching check-adjustment cases, archiving and retrieving check images, and delivering check services to depository institutions via the Internet. Our July 2001 *Report on the Audit of the Board's Oversight Approach for the Federal Reserve's Check Modernization Project* assessed the effectiveness of the Division of Reserve Bank Operations and Payment System's (RBOPS) oversight strategy and contained two recommendations to help RBOPS focus its oversight strategy. We recommended that the director define a specific set of project oversight objectives that are linked to assessing how effectively project management is mitigating recognized project risks. We also recommended better integration of the results of work performed by General Auditors and RBOPS' reviews of General Auditor operations. The RBOPS' director agreed that these recommendations would strengthen the division's project oversight efforts and plans to implement them. We will follow up on their implementation this year.

Projected Start Time: May 2002

Projected Completion: June 2002

Followup of the Board's Implementation of Performance Management Principles

Project Overview: The Government Performance Results Act of 1993 (Results Act) was designed to ensure that federal agencies and the Congress have sufficient performance information to make important program and budget decisions. Last year, we performed an audit to assess the current status of the Board's implementation efforts and to evaluate the benefits of fully integrating the Results Act concepts into the Board's planning and budgeting process. Our report contained four recommendations designed to enhance the planning and budgeting process by developing a performance-management framework, as well as adding some key performance-management characteristics such as a longer-range planning horizon with a Boardwide planning focus, specific performance indicators and measures, and expanded performance reports that show levels of achievement relative to the performance measures. Board management generally agreed with the intent of our recommendations and plans actions to address them. We will follow up on their implementation this year.

Projected Start Time: August 2002
Projected Completion: September 2002

Objective 2: Strengthen and Streamline the Board's Operational Infrastructure

Audit of the Board's Purchase Card Program

Project Overview: Last year we began an audit of the Board's purchase card program to evaluate the adequacy of the program's existing internal controls. Specifically, we evaluated the program's goals and objectives, determined the adequacy of procedures for issuing cards and ensuring proper use, and evaluated employees' compliance with current Board policy. We have completed our fieldwork and plan to issue our report during the first quarter of 2002.

Projected Start Time: Carryover from 2001
Projected Completion: March 2002

Business Process Review of the Board's Publications Program

Project Overview: In this second phase of the business process review, we are coordinating with the Publications Committee as it transitions the Board's publications program from a publications-based approach to an information-based communications approach that more fully optimizes the advantages of the Internet and electronic media.

During 2002, we will complete an analysis of the Board's *Annual Report and Annual Report: Budget Review* to provide the committee options for modifying these publications in recognition of information that is or could be available on the Board's public web site. Our analysis is intended to facilitate the committee's zero-based review of these publications.

Projected Start Time: Carryover from 2001
Projected Completion: March 2002

Finance Function Assessment

Project Overview: In coordination with the Staff Director for Management and the Associate Director for the Management Division's Finance function, we initiated an assessment of the Board's Finance function. The project objectives are to (1) assess the operations of the Finance function and the level of controls needed to meet business objectives, and (2) determine whether the current organizational strategy and structure support the goal of providing accurate, responsive, and high quality service. To accomplish our objectives, we are blending analytical techniques typically used in program auditing, collaborative assurance engagements, and business process reviews. Our assessment framework includes an analysis of financial-related objectives, risks, and controls, as well as critical processes, systems, documentation, and performance measures. We have engaged external consultants to assist in benchmarking key aspects of the Finance function, provide information regarding best practices in the public and private sectors, and bring specific expertise and experience to augment the assessment.

Projected Start Time: Carryover from 2001
Projected Completion: March 2002

Annual Audit of the Board's and Federal Financial Institutions Examination Council's Financial Statements

Project Overview: As in previous years, we have contracted for an independent public accounting firm to audit the financial statements of the Board and the FFIEC. Our auditors plan and perform the work necessary to obtain reasonable assurance that the financial statements are free of material misstatement. The audits include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audits also include an assessment of the accounting principles used and significant estimates made by management, an evaluation of the overall presentation of the financial statements, and a review of the internal controls over financial operations and reporting.

Projected Start Time: Carryover from 2001
Projected Completion: April 2002

Review of the Eccles Building Infrastructure Enhancement Project

Project Overview: In 1998, we began a monitoring effort of the project design, contract solicitation, and approval phases of this major Board procurement effort. From 1999 through 2001, we continued our efforts by reviewing the project's progress, with an emphasis on auditing change orders, project milestones, and progress payments. During 2002, we will continue to review contract modifications on an ongoing basis and perform a focused review of the Finance function's closeout procedures, including a test of compliance with those procedures.

Projected Start Time: April 2002
Projected Completion: May 2002

Review of Integrating Support Services into the Management Division

Project Overview: In a move that the Board hopes will create opportunities for more efficient operations, the Division of Support Services (SS) was merged into the Management Division in December 2001. SS functions include building maintenance, facilities management services, security, transportation, workman's compensation, mail, property, and leased space management. The entire SS staff has been added to the Management Division under an associate director. The objective of this engagement will be to provide the Staff Director for Management and the Director of the Management Division an assessment of each support services function and how it can best be integrated into the division to eliminate any duplication of effort, maximize efficiency, and provide first rate service to the Board.

Projected Start Time: April 2002
Projected Completion: June 2002

Management Division Assessment Capping Report

Project Overview: By the end of the second quarter, we will have completed reviews of each major Management Division function: Human Resources, Finance, and Support Services. The objective of this capping effort is to provide the Staff Director for Management and the Administrative Governor with an overall assessment of the Management Division's strategy, organizational structure, internal control environment, management, core processes, use of technology, controls, staffing levels, and performance. We plan to prepare a capping report that not only synthesizes and updates the information developed during the prior reviews, but also takes a fresh look at the cumulative body of work to identify any issues that were not apparent when focusing on each individual function.

Projected Start Time: May 2002
Projected Completion: June 2002

Review of the Board's Emergency Preparedness

Project Overview: The September 11 attacks reinforced the importance of a comprehensive emergency preparedness strategy that would provide for continuity of the Board's operations if a future incident adversely affected Board facilities, infrastructure, or staff. As part of its emergency preparedness strategy, the Board hired an emergency preparedness specialist and initiated planning efforts to fulfill the requirements of two related Presidential decision directives. The directives, issued in 1998, ordered (1) the strengthening of the nation's defenses against emerging unconventional threats to the United States to include those involving terrorist acts, weapons of mass destruction, assaults on our critical infrastructures, and cyber-based attacks (PDD 63); and (2) federal agencies preparedness for a full range of potential emergencies by establishing viable continuity of operations capabilities to ensure an agency can perform its essential functions during any emergency situation which may disrupt normal operations (PDD 67).

The objective of this review is to assist the Board in evaluating its emergency preparedness strategy and the status of its planning and implementation efforts. In this context, we will help the Board consider issues such as the role and organizational placement of the Board's emergency preparedness staff, coordination within the Board and between the Board and Reserve Banks, and the adequacy of the Board's resource commitment to this effort.

Projected Start Time: May 2002
Projected Completion: September 2002

Review of the Board's Compensation and Performance Integration

Project Overview: In 1989, the Board implemented a new compensation program designed to (1) attract, retain, and motivate qualified employees; (2) maintain pay levels that are competitive with local and regional labor markets, as appropriate; (3) reward employees according to individual performance and contribution to organizational goals; (4) be internally fair and consistent; and (5) adhere to applicable laws and regulations. The Board's Performance Management Program (PMP) is an integral part of compensation administration. Over the past ten years, certain changes have been made in these programs, such as introducing variable pay for certain job families and revising PMP criteria and processes.

The objectives of this project are to assess the Board's effectiveness in achieving the compensation program objectives and determining the impact of significant changes on the underlying program design and framework.

Projected Start Time: October 2002
Projected Completion: March 2003

Objective 3: Promote the Board's Effective Use of Technology

Banking Organization National Desktop (BOND) Life Cycle Assessment

Project Overview: In response to a request from BS&R, we have initiated a project to provide a neutral, third-party audit perspective on the development and implementation of the Banking Organization National Desktop (BOND) application. BOND is intended to facilitate real-time, secure information sharing and collaboration across the Federal Reserve System and with certain other federal and state regulators to support the risk-focused supervision of large, complex banking organizations.

One objective of our Management Advisory Services area is to provide the Board with proactive, value-added consulting services, which includes monitoring significant projects and participating in information systems development efforts to provide an early assessment on potential issues. Our primary focus on this engagement is to help ensure that the BOND application is being implemented in an efficient and effective manner, with proper attention to the control framework.

Project Start Time: Ongoing throughout the year.

Audit of the Board's Secure Communications Program

Project Overview: Last year, we began an audit of the Board's secure communications program. Our overall objective was to assess the security controls over voice, facsimile, and video-conferencing communications used to process classified and sensitive information. Specifically, we wanted to identify the types of information that comprise sensitive and classified communications; evaluate the infrastructure, management process, and controls over these communications; identify potential vulnerabilities and recommend corrective action; and identify opportunities to improve the program's efficiency and effectiveness. We have completed our fieldwork and plan to report to management during the first quarter on our observations and suggestions for improvement.
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Projected Start Time: Carryover from 2001
Projected Completion: March 2002

Audit of the Board's Information Security Program

Project Overview: On October 30, 2000, the President signed into law the FY2001 Defense Authorization Act, including Title X, subtitle G, "Government Information Security Reform" (Security Act). The Security Act provides a comprehensive framework to ensure proper management and security of the information resources supporting federal operations and assets. The Security Act also establishes requirements for conducting annual independent evaluations of agency information security programs and practices;

responsibility for these evaluations was given to the agencies' Inspectors General. During 2001, we completed our initial evaluation of the Board's information security program pursuant to the Security Act's requirements. This year we will again evaluate the effectiveness of security controls and techniques for selected Board information systems and evaluate compliance with the Security Act and related information security policies, procedures, standards, and guidelines. During this year's evaluation, we also anticipate conducting follow-up work related to the recommendations made during the prior year's evaluation.

Projected Start Time: April 2002
Projected Completion: September 2002

Audit of the Board's Implementation of E-Gov Services

Project Overview: Advances in the use of information technology and the Internet are transforming the way federal agencies communicate, use information, deliver services, and conduct business. One of the five governmentwide initiatives of *The President's Management Agenda* is to expand the use of electronic government (e-gov) as a way of securing and providing greater services at lower costs. The government is moving quickly on e-procurement, e-signature, and e-regulation projects that can deliver significant productivity and performance gains. For example, a federal public key infrastructure project is underway to promote digital signatures for transactions within the federal government, between the government and businesses, and between the government and citizens. Agencies are also working toward a single e-procurement portal on the Internet to provide access to notices of solicitations over $25,000—a key step in capitalizing on electronic business processes. Recent laws and regulations—including the Government Paperwork Elimination Act of 1998 and the 2000 Electronic Signatures in Global and National Commerce Act—show continued commitment to developing the infrastructures that support e-gov initiatives.

While the Board is emphasizing more web-based technology in providing information to the public and in managing certain internal operations, its strategy for addressing e-gov in procurement and related areas is less clear. The objectives of this project are to determine the status of the Board's implementation of e-gov concepts and systems, identify potential challenges, and recommend strategies to address these challenges.

Projected Start Time: October 2002
Projected Completion: February 2003

Objective 4: Help the Board Limit Risk and Ensure Compliance

Investigations

Project Overview: Our investigators will continue to address allegations of wrongdoing related to the Board's programs and operations, as well as violations of the Board's standards of conduct. We will respond to Hotline complaints as well as allegations that are referred to the OIG from our staff, Board staff, and other sources.

Projected Start Time: Ongoing throughout the year.

Audit of Contracted Expenditures to Enhance Security in Response to the Events of September 11, 2001

Project Overview: In the fourth quarter of 2001, the Board initiated twenty-six procurement actions totaling about $4 million to enhance security at its Eccles, Martin and New York Avenue buildings. Because of the need to respond quickly to potential terrorist threats and the anthrax contamination problem, most of these actions were undertaken as directed procurements, an approach that is permitted when formal competitive bid and negotiation processes will not meet the Board's needs. Our audit objective will be to determine if the Board used the directed procurement approach appropriately and whether policies or procedures associated with this approach should be enhanced.

Projected Start Time: February 2002
Projected Completion: April 2002

Audit of the Board's Outsourcing

Project Overview: Across the government, increased emphasis is being placed on outsourcing tasks that are readily available in the commercial marketplace, such as administrative support, certain aspects of facilities management, and payroll services. Historically, the government has realized cost savings of 20 to 50 percent through competitive sourcing, which is one of the governmentwide initiatives in *The President's Management Agenda.* Over the years, the Board has outsourced several of its functions, such as the servicing of its HR benefit program, its cafeteria and food services, and its cleaning and housekeeping maintenance. The objectives of this project are to assess the Board's management of the contracts for outsourced services and its process for identifying other potential candidates for competitive sourcing.

Projected Start Time: July 2002
Projected Completion: November 2002

Audit of the Board's Fine Arts Program

Project Overview: The Fine Arts Program, which has been operational since 1975, is described as a work-life asset with a mission to contribute to a collegial atmosphere that fosters institutional values such as integrity, substance, pride, and a sense of well being among employees, and conveys these values to official visitors and the general public. The program resides in the Management Division and operates with a two-year budget of about $300,000. The program has two key activities: to collect art and to organize exhibitions. Although its budget is small, the program manages a collection of about 300 works of art donated by citizens and foundations and has about 150 pieces that are on long-term loan from museums and private collections. Acquisitions of artwork are also made possible through cash contributions that are facilitated by the program's nonprofit, tax exempt status under section 170 of the Internal Revenue Code. The program holds daily exhibitions of portions of its collection and arranges special exhibitions for foreign central banks or other dignitaries.

We plan to audit this program to evaluate the adequacy of controls for securing and preserving the Board's art collection, the processes for properly valuing the collection for insurance and financial reporting purposes, and the financial controls governing the receipt and expenditure of cash contributions.

Projected Start Time: September 2002
Projected Completion: January 2003

Audit of the Board's Workers' Compensation Program

Project Overview: Board employees are eligible to receive benefits under the Federal Employee's Compensation Act for disability due to personal injury sustained while in the performance of duty. The Department of Labor (DOL) administers the act by adjudicating claims, paying benefits, and administering the chargeback system, which allocates compensation costs back to the Board. The DOL bills the Board annually for benefits paid to claimants and processing expenses. At the Board, Management Division personnel perform claims intake, authorize leave in accordance with program rules, and monitor a claimant's work and health status to determine when benefits should end.

Last year, we worked with the Legal Division and the Management Division's Human Resources function to complete a risk assessment of the Board's human resource programs and benefits. The Workers' Compensation Program was identified as one of fourteen high-risk entities in terms of both operational and inherent risk that warranted a compliance review. Our audit objectives will include an evaluation of controls that ensure proper initiation of claims, timely and accurate claims processing and leave administration, timely termination of benefits, and accurate and appropriate payment to the DOL.

Projected Start Time: October 2002
Projected Completion: January 2003

Audit of Retirement Plan Administration

Project Overview: The Office of Employee Benefits (OEB) was originally established to administer the Federal Reserve System's retirement plans. Over time, the OEB's responsibilities have grown to include several other benefit plans such as the thrift plan, the long term disability plan, and the personal accident insurance plan. Oversight of the OEB is the responsibility of three committees: the Committee on Employee Benefits, the Committee on Investment Performance, and the Committee on Plan Administration. Each committee is comprised of senior Board and Reserve Bank officials.

During 2002, we participated with the Reserve Bank General Auditors in an audit of OEB. The audit included a recalculation of pension payments for each retirement election option from a sample of retired employees throughout the System and a verification of information for active employees. The limited work we performed in support of the audit identified several discrepancies in the information maintained by the contracted retirement plan administrator. (OEB has contracted administration of the retirement plan to Hewitt Associates.) This year, we plan to focus more in-depth on administration of the retirement plan for Board employees with the objective of evaluating the controls over plan administration and the maintenance of employee information. We anticipate conducting a more thorough review of data maintained in the contracted administrator's database for active employees and sampling recently retired Board staff to identify issues related to customer service and retirement processing and administration.

Projected Start Time: November 2002
Projected Completion: February 2003

Goal 2: Enhance Coordination and Information Sharing With the Congress, IG Community, and Others

Objective 1: Develop and Enhance Relations with the Congress

Review of Legislation and Regulations

Project Overview: Consistent with our statutory requirements, the OIG reviews and analyzes legislative and regulatory requirements and proposals both as part of our routine activities and on an ad hoc basis. With the transition to a new administration in 2001, the changes in the leadership of key congressional committees and subcommittees, and the profound impact of the September 11 terrorists attacks, the OIG faces new challenges to ensure we stay current on the many broad and sweeping legislative initiatives that are affecting the Board and the financial services industry. During 2002, we plan to bring a more strategic focus to the legislation and regulation review function by directing our efforts toward the following goals:

- Building constructive liaisons with key Board and Congressional officials responsible for drafting laws and regulations impacting Board programs and operations.

- Institutionalizing processes for identifying, prioritizing, tracking, researching, and reporting on the proposed and/or enacted legislation.

- Establishing and maintaining a database for capturing information and statistics on key legislation and regulations.

Projected Start Time: Ongoing throughout the year.

Objective 2: Improve Our Responsiveness to Allegations of Fraud, Waste, Abuse or Mismanagement and to Public Requests for Information

Hotline Operations

Project Overview: The OIG's nationwide Hotline operation is available to those who want to report wrongdoing in the Board's programs and operations, including delegated functions. Our Hotline local and toll-free telephone numbers and mailing address are published in many sources, including the in-house and local telephone directories of the Board, Reserve Banks, and Branches. Information received via the Hotline is confidential and callers to the toll-free numbers can remain anonymous. The Hotline is an integral part of the OIG's prevention and detection strategy which is designed to detect and identify

causes of fraud and abuse, minimize any potential damage or loss, and help the Board resolve such problems and prevent their recurrence.

Projected Start Time: Ongoing throughout the year.

Fictitious Instrument Frauds

Project Overview: In our ongoing review and monitoring effort of fictitious instrument fraud complaints, our investigators continue to address allegations involving schemes in which promoters promise very high profits based on fictitious instruments they claim are issued, endorsed, or authorized by the Federal Reserve System or a well-known financial institution.

Projected Start Time: Ongoing throughout the year.

Web Page Development and Enhancement

Project Overview: Last year, we completed a redevelopment of our current web page to provide additional functionality and enhanced information content. This year, we plan to complete additional enhancements such as regular fraud awareness updates and an Intranet reading room for disseminating information to the OIG staff. We also plan to initiate a scoping and research effort designed to determine ways to enhance the effectiveness, efficiency, and responsiveness of our OIG nationwide Hotline operations. A primary consideration in the implementation of an electronic Hotline will be to maintain the same level of confidentiality and anonymity that callers to our toll-free numbers currently receive. In addition to these enhancements, we will continue to explore alternatives for maintaining and updating both our internal and external web pages.

Projected Start Time: Ongoing throughout the year.

OIG Deputation

Project Overview: In an effort to meet the Department of Justice (DOJ) and U.S. Marshall's Service (USMS) requirements for law enforcement deputation, the OIG will establish the relevant policies, procedures, infrastructure, and training necessary for compliance with all of the critical elements of the DOJ and USMS standards. This effort will position the OIG to initiate a request for deputation on a case-by-case or as-needed basis.

Project Start Time: January 2002
Project Completion: June 2002

Objective 3: Take a Positive Leadership Role in the IG Community

Participation in the Executive Council on Integrity and Efficiency (ECIE)

Project Overview: As Vice Chair, the Board's IG provides leadership, vision, direction, and initiatives for the ECIE on behalf of the Chair (Deputy Director for Management, Office of Management and Budget). Building on the strategic framework developed in coordination with the President's Council on Integrity and Efficiency (PCIE) and a consensus among the ECIE membership regarding our future direction, our work over the next year will focus on three primary goals and strategies:

- Make the ECIE more relevant to the Congress, Administration, OIG community, and related groups by identifying and gaining an understanding of key areas of interest, building liaisons with the PCIE and others, and fostering coordinated efforts to address cross-cutting issues.

- Make the ECIE meetings more meaningful to the OIG community by facilitating and supporting the newly created ECIE Program Planning Committee in obtaining interesting and topical speakers and the associated agenda planning; reaching out to all ECIE organizations to increase participation and encourage involvement; and providing opportunities for individual offices to showcase the talent and work of their teams and staff members.

- Streamline ECIE administrative operations by offering developmental opportunities for staff to work on key processes while gaining an understanding of the ECIE's history, current operations, processes, and membership.

    Projected Start Time: On-going throughout the year.

Objective 4: Foster Interagency Approaches to Cross-Cutting Issues

Community Involvement

Project Overview: Our membership and leadership role in the ECIE, and our continued participation in the Council of Counsels to the Inspectors General, will provide vehicles for participating in, and helping to set the direction for, interagency and inter-entity projects—including audits, inspections, and investigations. Through these efforts, we can more efficiently and effectively deal with governmentwide issues of fraud, waste, and abuse. We will also look for other opportunities to join interagency efforts (such as the OIG Government Performance and Results Act Coordinators' Interest Group and the PCIE/ECIE Working Group on Critical Infrastructure Assurance) to share review techniques and offer OIG staff the opportunity to network with peers throughout the OIG community. To this end, the Board's IG is serving on the Comptroller General's Advisory Council on

Government Auditing Standards and is a member of the Institute of Internal Auditor's Government Relations Committee.

Projected Start Time: Ongoing throughout the year

Goal 3: Enhance the Efficiency and Effectiveness of Internal Operations

Objective 1: Continue to Improve Our Business Processes

Windows 2000 Implementation

Project Overview: Windows 2000 is a family of products consisting of Windows 2000 Professional for the desktop and Windows 2000 Server/Windows 2000 Advanced Server for the server. Windows 2000 offers a wide range of new and/or improved functions and features that, when deployed as a family, provide benefits from both a business and information technology perspective. The Federal Reserve System has established a Windows 2000 planning workgroup, and the Board as a whole—and specifically the OIG— is actively participating in the planning and deployment efforts for Windows 2000. The OIG upgraded all desktop platforms to Windows 2000 Professional in the fourth quarter of 2000. During 2001, the OIG upgraded two of its servers to the new platform as part of the initial phase of the Systemwide conversion effort. We will upgrade our remaining servers to Windows 2000 within the next twelve-to-eighteen months in conjunction with the System's deployment schedule. Prior to the upgrade, OIG security requirements will be evaluated and changes made as required to implement security features available in the new operating system.

Projected Start Time: Ongoing throughout the year.

OIG Applications Design and Development

Project Overview: The use of Lotus NOTES as our applications platform has allowed us to automate the majority of our core business processes. As part of last year's migration to the Board's new NOTES domain structure, we reviewed the design and coding of each of our primary applications and made modifications to incorporate new software design features. Because the original design of most of our key applications was completed in an early release of NOTES, however, making only minor modifications is insufficient to incorporate all of the organizational and procedural changes that have been implemented since the applications were originally designed. During the first quarter of 2002, we plan to convene user groups of the primary applications (audit staff, investigative staff, and management) to fully define application requirements and crosswalk those requirements against current functionality. Based on that assessment, we will determine the optimum development strategy and the resources required to implement that strategy. We will also prioritize our design and development efforts to maximize our limited information technology resources.

Projected Start Time: Ongoing throughout the year.

OIG Information Security Plan Development

Project Overview: Pursuant to the requirements of the Government Information Security Reform Act, the Board's Division of Information Technology requested each division to complete several actions related to information security. The first of these requirements is to develop an application security plan for each major application and general support system for which the divisions are responsible. The OIG has identified its audit and investigative databases as the division's major applications and Lotus NOTES as its primary general support system. Accordingly, we have begun development of a security plan which will (1) provide an overview of the security requirements for the applications and the platform and (2) describe the controls in place or planned for meeting those requirements. As part of the development process, we will also identify areas for improvement and corrective actions required.

Projected Start Time: January 2002
Projected Completion: April 2002

Policies and Procedures Update

Project Overview: The OIG has recently experienced several changes in its organization structure and operating methodologies. These changes encompass all functional areas within the OIG and necessitate an integrated approach to evaluating and updating our existing policies and procedures. We will coordinate this project with other ongoing efforts to enhance the efficiency and effectiveness of our internal operations, such as our records management review, our application redesign, and the development of Management Advisory Services (MAS) methodologies and approaches. We will also incorporate the results of our recent audit peer review and anticipated changes as a result of modifications to generally accepted government auditing standards.

Projected Start Time: March 2002
Projected Completion: September 2002

MAS Methodologies and Approaches/Enterprise Risk Assessment

Project Overview: The OIG has conducted MAS engagements that cover a diverse array of issues and employed a range of methodological approaches, including those commonly used in program and performance audits as well collaborative assurance engagements. Feedback from Board senior management as well as recent requests for additional work confirm that the MAS program is meeting it's objective of providing the Board with the benefit of the OIG's unique perspective and expertise outside of the traditional audit setting. The first objective of this project is to memorialize our MAS experience, and provide OIG staff with a guide for planning and conducting a successful MAS engagement. In preparing this tool, we will scrutinize each prior MAS engagement to derive lessons learned, best practices, and methodological alternatives.

There is another related objective that will be included as part of this project. In an ongoing effort to provide additional value to the organizations they serve, forward-thinking audit organizations are offering a new line of business called Enterprise-wide Risk Management (ERM). Our second objective is to include a section on ERM in the MAS guide. To accomplish this objective, we will draw upon ERM research materials available from the Institute of Internal Auditors, and, time permitting, will field test and refine our approach by conducting a small scale pilot ERM engagement.

Projected Start Time: July 2002
Projected Completion: December 2002

OIG Information Technology Strategic Plan

Project Overview: Several years ago, the OIG developed a technology strategic plan that laid out the office's vision for implementing state-of-the-art technology to introduce such capabilities as work-flow processing, information warehousing, data mining, and group discussion/analysis to facilitate communications. The plan envisioned the integration of information, technology, and business processes by leveraging technology to improve organizational efficiency and providing products and services that would make the organization more effective in meeting its mission.

Although the plan's overall objectives remain relevant, most of the specific actions to achieve those objectives have been implemented or overtaken by advances in technology. Accordingly, we are revising our information technology plan to incorporate new developments in hardware and software, infrastructure enhancements at the Board and in the System, and philosophical changes on the relationship of technology and business principles. In looking out over a three-year horizon, the plan will incorporate technological considerations (such as advances in web technology and remote computing capabilities), process changes (such as the further integration of manual and automated records and the move to a "virtual office" concept), as well as human capital requirements (such as the information technology skill sets required of all OIG staff).

Projected Time Start: October 2002
Projected Completion: December 2002

Records Management

Project Overview: An important component of an efficient organization is its ability to retrieve records and information that have been collected. An effective records management system supports institutional memory and enhances the organization's ability to do creditable research and analysis. The objective of this project is to enhance our records management system, including automated files, paper records, electronic archiving, and other documents generated or maintained by the OIG.

Projected Start Time: October 2002
Projected Completion: March 2003

Objective 2: Enhance Our Human Capital through Effective Leadership and Management of Our Staff

Individual Development Plans Implementation

Project Overview: As part of our strategic approach to emphasizing career development and professional growth, we are planning to complete individual development plans for each OIG staff member in 2002. The major objectives for individual development plans are to

- provide more opportunities for staff to do work in all OIG service areas to expand opportunities to learn and apply their knowledge and abilities;

- expand career choices, career paths, job enrichment options, and career opportunities;

- allow staff members to take responsibility for managing their development goals and career options;

- produce experts of the Board's business and in the OIG's mission;

- allow the OIG to assemble, integrate, and retain highly talented employees;

- make it easier for OIG managers to coach;

- provide feedback, and develop the staff required to accomplish current and future business strategies; and,

- improve the quality of performance and career development discussions between managers and employees.

Projected Start Time : Carryover from 2001
Projected Completion: April 2002

Performance Measures

We have adopted a set of performance measures, which build upon the performance indicators in our *Strategic Plan*. The following table describes each performance measure and our goals for 2002:

Performance Measure	Goals for 2002
Productivity	
Degree to which OIG resources are productively utilized.	• Complete legislatively-mandated projects within requirements.
	• Complete carryover projects from 2001.
	• Complete customer-requested projects within requirements.
	• Complete scheduled follow-ups of previous work.
	• Complete at least 50% of other self-initiated projects.
	• Resolve at least 75% of Hotline complaints received.
	• Completion of new investigative cases opened during 2002 will be determined based on the nature and type of investigations.
	• Complete at least 75% of OIG internal projects.
	• Completion of required continuing education.
Timeliness	
Degree to which projects and products are completed according to legislated requirements or agreed upon milestones.	• 100% of legislatively mandated projects completed by established timeframe.
	• 100% of congressional or Board requested projects completed by negotiated deadline.
	• 75% of other projects completed by agreed upon milestone.
	• 75% of projects completed by agreed upon semiannual reporting period.
	• 100% of significant Hotline calls handled within 48 hours.
	• 90% of general Hotline calls handled within 72 hours.
	• 75% of training and development activities attended as scheduled.

Performance Measure	Goals for 2002
Quality	
Degree to which projects are conducted according to applicable standards, guidelines, policies and procedures and result in high-quality products.	• Projects will be conducted according to applicable standards, guidelines, policies, and procedures. • Products will be free of material inaccuracies or reliability problems.
Customer Satisfaction	

Where applicable, degree to which projects and products meet customer needs and expectations.	• Achieve a high-level of customer satisfaction based on
	  • Feedback received from requestors,
	  • Results from customer surveys,
	  • Feedback from Hotline callers, and
	  • Feedback from OIG staff on internal process and system improvements.

Results	

Degree to which OIG activities add value to the Board's programs and operations, enhance our external communications, and improve internal operations.	• At least 75% of Goal 1 projects will result in products that identify one or more of the following:
	  • Program Improvements,
	  • Funds for Better Use,
	  • Questioned Costs,
	  • Control Improvements,
	  • Enhanced Law and Regulation Compliance, and
	  • Enhanced Fraud Prevention and Detection.
	• Improved congressional relationships.
	• Improved OIG communication with the public.
	• Enhancement of staff skills relative to OIG business requirements.
	• Enhance our internal business processes and systems.